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**REPORT FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT AND  
THE COUNCIL**

**Fifth Annual Report 2010 on the implementation of Community assistance under  
Council Regulation (EC) No 389/2006 of 27 February 2006 establishing an instrument of  
financial support for encouraging the economic development of the Turkish Cypriot  
community**

# **REPORT FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT AND THE COUNCIL**

## **Fifth Annual Report 2010 on the implementation of Community assistance under Council Regulation (EC) No 389/2006 of 27 February 2006 establishing an instrument of financial support for encouraging the economic development of the Turkish Cypriot community**

### **1. INTRODUCTION**

Council Regulation (EC) No 389/2006 establishing an instrument of financial support for encouraging the economic development of the Turkish Cypriot community<sup>1</sup> (hereafter the "Aid Regulation") is the basis for the implementation of the assistance for Turkish Cypriot community and requests annual reporting to the Council and the European Parliament. This fifth report covers the period from 1 January until 31 December 2010.

### **2. PROGRAMMING OF THE ASSISTANCE**

Under the 2010 budget € 3 million was committed for the support of the Committee on Missing Persons (CMP)<sup>2</sup>.

A programming exercise took place for the allocation of €28 million under the 2011 budget. The external evaluations from 2009 and 2010, internal evaluation and consultations with the stakeholders served as the basis for it.

### **3. IMPLEMENTATION MECHANISMS**

The programme is implemented in an EU Member State in an area that is not under the effective control of that Member State's Government and where the application of the EU *acquis* is suspended. The assistance is implemented primarily through centralised management by the European Commission. Some projects are jointly managed with the United Nations Development Programme (UNDP).

The Commission operates in a unique political, legal and diplomatic context. *Ad hoc* arrangements are needed to implement the programme while respecting the principles of sound financial management.

In EU-funded aid programmes, a Financing Agreement with the Government of the beneficiary country generally establishes the legal framework under which the assistance is implemented. No such agreement exists for this assistance. Therefore, the Commission has to rely on what it understands to be the rules and conditions

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<sup>1</sup> OJ L65, 7.3.2006, p.5.

<sup>2</sup> Commission decision C(2010)6874 on the 2010 support to the Committee on Missing Persons.

applicable locally. It means that the Commission entering into contractual arrangement takes on more risks than it would normally encounter.

Because of the political context, enforcement of recovery orders from Turkish Cypriot entities in case of non-compliance with terms of contract may be difficult. The Commission has adopted measures to mitigate this risk including intensive monitoring and support to beneficiaries, revised payment conditions, linking advance payments with proof of signed procurement contracts and the extensive use of bank guarantees.

The Commission relies on the support of the Turkish Cypriot community to make this programme a success and in particular to ensure its sustainability in the long-term. Turkish Cypriot stakeholders are also consulted about their needs for future funding. Turkish Cypriot experts took part in evaluation panels also for the 2009 edition of the Programme that was contracted in 2010. They play a key role in project steering committees.

Due to the particular conditions of implementation of the Aid Programme, a Programme Team was set up in 2006 within the Commission's Directorate-General for Enlargement. Working on a long-term mission in Cyprus, it uses the EU Programme Support Office (EUPSO) located in the northern part of Nicosia. This office provides a venue for meetings and seminars with Turkish Cypriot stakeholders. It also allows direct monitoring of projects implementation. Office logistics continue to be provided by a private contractor (Deutsche Gesellschaft für Internationale Zusammenarbeit GmbH - GIZ) under a contract running until June 2012. The Representation of the Commission in Cyprus also provides a venue for meetings and seminars.

Since 2010 staff expenses are financed under the administrative budget. At the beginning of the reporting period, the Programme Team staff decreased from 29 persons (3 Commission officials and 26 contract agents) to 22 (respectively: 2 and 20). This reduction affects in particular the procurement team and requires strict priority setting and reallocation of staff resources to ensure adequate monitoring.

#### **4. IMPLEMENTATION DURING THE REPORTING PERIOD**

##### **4.1. General overview**

The Aid Programme entered into the phase of the fully fledged implementation. Efforts concentrated on monitoring, ensuring projects' sustainability and building up capacity of beneficiaries to take over projects when completed, in particular large scale works and supplies. Lack of experience with regard to the implementation of grant contracts by Turkish Cypriot beneficiaries has required the need of training as well as very close hands-on monitoring.

The total number of contracts being implemented in 2010 amounted to 984 (works, services, supplies and grants), out of which 200 were closed.

In the course of 2010, funding from the Aid Programme provided a major contribution to confidence building measures as de-mining, support to the CMP and

the opening of the new crossing point at Kato Pyrgos and Karavostasi (also known as Limnitis/Yeşilırmak crossing point).

#### **4.2. Progress by objectives**

The overall objective of the Aid Programme is to facilitate the reunification of Cyprus by encouraging the economic development of the Turkish Cypriot community with particular emphasis on the economic integration of the island, on improving contacts between the two communities and with the EU, and on preparation for the implementation of the EU law in case of a comprehensive settlement of the Cyprus problem.

##### *4.2.1. Objective 1: Developing and restructuring of infrastructure*

In the water sector, the replacement of old concrete asbestos *water distribution pipes* in the northern part of Nicosia, Kyrenia, Gonyeli and Lefke/Lefka was largely completed by end 2010. In Nicosia, based on data provided by the Turkish Cypriot beneficiaries this led to 15% reduction in water losses. Uninterrupted water supply could be achieved in the winter season for the first time since many years. The supply of water laboratory equipment was also completed.

Works on the major *water and wastewater* investments in Famagusta and Morphou/Güzelyurt fell behind schedule during 2010 but both are still expected to be completed and commissioned in 2011. Works started in 2010 on the construction of a new *bi-communal wastewater treatment plant* at Mia Milia/Haspolat, which is scheduled for completion in the second half of 2012 (implemented by UNDP).

The contract for construction of a *seawater desalination plant* at Sirianokhori/Kumköy was signed in December 2009 with a suspensive clause to allow time to secure from the Turkish Cypriots adequate assurance firstly of free and unrestricted access to the site and secondly of their assistance for smooth, efficient and effective implementation. After receiving such assurances, the suspension was lifted in August 2010 with the start of the first phase of the contract, comprising pilot trials and detailed design. However in October 2010, restrictions on access were introduced which delayed the finalisation of the first phase and challenged its continuation.

On *nature protection*, training continued. Preparation of the draft management plans continued for the potential Natura 2000 areas with the public consultation meetings due in early 2011. Construction of facilities for management and protection in four areas started (delayed for some months due to the discovery of archaeological remains) as well as the establishment of a network of nature trails. Delivery of supplies for nature protection including an automatic forest fire detection system was partially completed. The decision to allocate a university campus within a special protected area was reversed by Turkish Cypriots.

In the *solid waste* sector, the main activities focused on the commencement and ongoing implementation of the works contracts at the *Koutsoventis/Güngör* and *Famagusta* sites. As the property issue was solved, the *Kato Dhikomo/Aşağı Dikmen* project progressed as well. The project on *Medical Waste Facility* implemented by UNDP was close to completion with the equipment to be delivered in early 2011.

Technical assistance focused on further restructuring of existing waste management services. The establishment of an operating entity to take over the management of the new solid waste management system did not progress as expected during the reporting period. Equipment for the implementation of the biodegradable waste composting project was supplied.

In the *energy* sector, most of the supply contracts have been successfully finalised. The electrometers and the related automated reading system, the reactive power compensation equipment, the meter calibration laboratory, the pollution control and weather/wind monitoring system, the Supervisory Control and Data Acquisition (SCADA) system and the customer care system for the electricity utility have been delivered and installed in 2010. In some cases beneficiary's action (to secure a better location, to connect to power supply, to employ additional staff) is necessary for an effective use of the investments. The works on the *Solar Power Plant* have started. On other contracts progress was limited. Under the interconnection metering contract the preparation of the installation sites by the beneficiary is still pending. The technical assistance for the restructuring of the electricity utility, despite adapting its objectives to the needs of the beneficiary, lacked the full cooperation of the counterparts to enable timely and effective completion.

In the *telecommunications* sector, the revised configuration of the network will be incorporated into the contract. It was proposed by the contractor based on the actual situation identified during the sites survey. The sites preparation was initiated towards the end of the year and the progress matched the contractor's installation planning. The technical assistance component progressed slower than expected. No decision were taken to separate the provision of services from the network operation or to liberalise the sector .

Under the objective for *traffic safety* projects the technical assistance contracts for the preparation of traffic management plans for local communities and for the intercity road network have completed their tasks and submitted the final reports. The technical assistance for creating an effective accident information database and data collection system to strengthen the knowledge of traffic incidents finalised the design of the system and integrated it with the hardware delivered under a separate supply contract. The testing of the system and training for users is ongoing. The technical assistances for the improvement of vehicle inspections and of the drivers licensing procedure have provided valuable advice. The installation of the periodic vehicle inspection equipment was delayed due to the decision of the beneficiary to locate it on an inspection lane still to be built. The education campaign to promote traffic safety and raise awareness was developed and will be implemented in 2011. The technical specification for the project aiming at the elimination of traffic accident "black spots" has been revised.

#### 4.2.2. *Objective 2: Promoting social and economic development*

The four technical assistance teams (Rural Development Support Team, Animal Husbandry, Crop Husbandry, Programme Management Unit), funded under the *Rural Development Sector Programme* have delivered targeted training and technical assistance to farmers, veterinarians, and rural development experts, central and local stakeholders. The teams have also supported 225 grant beneficiaries of the following grant schemes "Improving agricultural production", "Supporting rural enterprise",

"Community development through Village Initiatives". The equipment from supply contracts for veterinary laboratories and crop husbandry were delivered and are in use. The Rural Development Support Team revised and finalised a provisional Rural Development Plan and two Local Action Strategies in respect of underlying EU principles to rural development.

Under the project *Upgrading of Urban and Local infrastructure* implemented in joint management with UNDP, the seventh new crossing point was opened linking the villages of Kato Pyrgos/Asagi Pirgo and Yeşilirmak/Limnitis. The EU funded the feasibility study and contributed with €2.5 million to the works. Rehabilitation works in several villages in the northern part of Cyprus (i.e Hisarköy/Kampyli, Akincilar/Louroukina) were finalised. The facades of the buildings alongside one side of the Ledra street crossing point were restored. Renovation of the market in the walled city of Nicosia started.

15 new grant contracts were signed with local *schools* for a total value of approximately €0.5 million to support modernisation of education techniques. Automotive and printing equipment was delivered to vocational schools.

The technical assistance for the *ongoing reform of primary and secondary education* concentrated on building the capacities of the main stakeholders including intensive training to a core team of inspectors, study visits, training and support on Child centred education, quality standards development and input for the development of the European Information Management System.

Under the project for *life-long learning, social inclusion and active labour market measures* some of 31 grants awarded to SMEs, chambers and other training organizations were completed. Technical assistance was provided for the development and promotion of vocational education and training systems, life-long learning and active labour market measures, including the opening of a job center in Nicosia and study visits and conferences abroad. Efforts were concentrated on training the stakeholders including career counseling.

In support to *SME competitiveness*, 32 contracts within 2 grant schemes worth of €4.5 million in total were ongoing during the reporting period. The outcomes expected from the SME grants are to increase competitiveness of the Turkish Cypriot private sector through upgrading physical equipment and aligning business management practices to those in the EU. The implementation of the majority of these contracts have been delayed due to lack of experience of the beneficiaries with EU procurement rules and a slow procedure of bank guarantees provision caused late pre-financing payments. In addition, the private sector has been supported through a technical assistance contract (€2.75 million) targeted at *mainstream institutions and actions in the field of sustainable economic and ICT development*. The implementation started from the second half of 2010. The major outcome to date is the expert assistance provided for the drafting of a *Private Sector Development Strategy*.

#### 4.2.3. *Objective 3: Fostering reconciliation, confidence building measures, and support to civil society*

*Reconciliation, confidence building measures and support to civil society:* Out of the 44 projects granted 2 have been cancelled on the request of beneficiary (lack of capacity to implement the contract). Many of the beneficiaries have requested extensions in project duration. Grant monitoring has been carried out by external experts for financial monitoring and operational monitoring by the Programme Team.

The *Civil Society Support Team* Technical Assistance provided guidance and support to applicants based on counselling for grants management and capacity building activities.

The EU continued to be the single biggest donor to the activities of the *Committee of Missing Persons* that aims to establish the fate of those persons declared missing by both communities as a consequence of the tragic events of 1963-64 and 1974. The contract of €3 million will be finalised in February 2011. A documentary has been prepared and distributed to inform about these activities.

*Demining:* The buffer-zone is expected to be declared mine-free by April 2011. The UN suggested to proceed with the demining outside the buffer zone but the Commission for the moment has neither a political mandate nor resources to continue works.

The activities of the project *Academy of Political Studies* implemented by the Council of Europe focus on increasing understanding of the key issues for the future of the island within the EU. For its second academic year the project gathered 30 selected young leaders from both Cypriot communities.

#### 4.2.4. *Objective 4: Bringing the Turkish Cypriot community closer to the European Union*

For the fourth academic year of the *Scholarship Programme* a total of 96 scholarships (22 teachers, 10 undergraduates, 64 graduates) was granted. Students and teachers were free to choose study and training programmes, although priority was given to areas where there is a lack of skilled professionals in the Turkish Cypriot community (Economics, European studies, all Engineering fields, Public Administration, Public Finance). Host countries were the United Kingdom, the Netherlands, Germany, Italy, Spain, Sweden, Estonia, Latvia, Greece, Finland, Czech Republic, Poland and Hungary.

Under the “*Promotion of Youth Exchanges and other People-to-People Contacts*” 15 projects have been implemented. Some of the projects funded in the second call have requested extension of the project duration. All projects will be finalised in 2011.

The EU *Infopoint* has become an important source of information for the Turkish Cypriots regarding both EU and Aid Programme related questions and inquiries. Its website was launched in 2010. InfoPoint prepared 26 visibility and informative events (study visits, conferences, seminars, public lectures on EU history, institutions, decision making processes and policies as well as tailor-made training courses on procurement rules and project management). It hosted several grant award

ceremonies for the Aid Programme. The Infopoint produced/translated into Turkish 7 publications and 22 fact sheets on the Aid Programme. Two Quantitative Surveys have been prepared in order to measure the Turkish Cypriots' perceptions of the EU and the EU's activities concerning the Turkish Cypriots. To supplement this data, three more Qualitative Studies were conducted. Sixteen events were broadcasted in local TV. As the demands of the beneficiary community become more explicit, the Infopoint needs to meet this challenge by continuing to improve the quality of its services.

4.2.5. *Objective 5: Preparing the Turkish Cypriot community to introduce and implement the acquis communautaire*

*The European Commission's Technical Assistance Information Exchange (TAIEX)* instrument is used as the main tool for delivering assistance to prepare the Turkish Cypriot community for implementation of the *EU acquis* following a comprehensive settlement to the Cyprus problem.

TAIEX facilitated 365 technical assistance activities such as training courses, workshops, expert missions including assistance provided by experts remotely and study visits in order to support the achievement of the objectives of the Aid Regulation.

Activities continued to focus mainly on the Programme for the Future Application of the Acquis (PFAA). The PFAA provides a framework for planning and delivering technical assistance and training. Assistance was provided in 13 sectors of the PFAA<sup>3</sup>. During the course of 2010 the Turkish Cypriots expressed an interest in receiving technical assistance in a further 3 *acquis* areas<sup>4</sup>.

At the end of 2009 TAIEX support to the Turkish Cypriots moved to a medium term project basis in order to achieve its objectives more efficiently and effectively. A total of 97 experts from EU Member State public administrations were selected to support medium term technical assistance projects.

TAIEX provided training on the preparation of legal texts aligned with the *acquis* for the purpose of these being immediately applicable upon the entry into force of a comprehensive settlement. Linked to the future management of EU funds after a settlement, training continued to be provided in the area of public expenditure management.

Development of *trade across the Green Line* was also supported by TAIEX. EU Member State experts were regularly mobilised to carry out the necessary phytosanitary/veterinary inspections of potatoes and fish, in order to facilitate this trade.

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<sup>3</sup> Free Movement of Capital; Public Procurement; EU Company Law; EU Competition Policy; Financial Control; Financial Services; Agriculture and Rural Development; Food Safety, Veterinary and Phytosanitary Policy; Road Transport; Statistics; Social Policy and Employment; Environment; Consumer and Health Protection

<sup>4</sup> Mutual Recognition of Professional Qualifications, Intellectual Property Rights, Free Movement of Goods.



The three equipment supply contracts for *air quality monitoring* were implemented and equipment is being used. The two ongoing technical assistance contracts for this sector have focused on establishing daily quality control and quality assurance procedures for running the equipment supplied, assisted in development of air quality monitoring plans. Turkish Cypriots need to ensure that adequate staffing or funds to outsource services is provided to manage the air quality monitoring stations and elaborate the data.

#### 4.2.6. *Studies*

A €1 million *Trust Fund with the World Bank* to carry an "Economic analysis programme for growth and sustainable development" was delayed due to disagreements between the Republic of Cyprus and the World Bank on terminology to be used.

### 4.3. **Financial execution (contracts and payments)**

#### 4.3.1. *Contracting*

€2.5 million of the 2009 commitments appropriations was available out of which 78% was contracted. 106 new contracts for scholarships 2010/2011 and schools have been signed.

In 2006-2010 the total allocation for this Aid Programme amounted to €264.5 million.

#### 4.3.2. *Payments*

The European Commission disbursed ~~€~~**€62.7** million in 2010, around 18% lower than foreseen in the initial planning. This was due to the late start of the seawater desalination project of €27.5 million and rural development grants of € 4 million in total.

In total €132 million (52% of the overall contracted amount) was disbursed by end-2010.

### 4.4. **Monitoring**

The Interim Review Mechanism (IRM) serves as a forum to discuss in detail with the beneficiaries the implementation of the programme. It met twice in 2010.

2010 also saw the launch of a separate mechanism to monitor assistance delivered through TAIEX.

In 2010 the activities of the Programme Team concentrated on monitoring. The main instruments are field visits and participation in project's steering committees. In addition, external support for the financial monitoring has been contracted.

### 4.5. **Audit and controls**

The operational audit unit of DG Enlargement audited a sample of contract and payment transactions. The report is expected in the first quarter of 2011.

A fact finding mission of the European Court of Auditors took place in November 2010 in preparation of a performance audit in 2011.

#### **4.6. Evaluation.**

In 2010 mid term sectoral evaluations were carried out in the civil society and rural development sectors. The conclusion underlined the necessity of continuous multiannual funding to ensure sustainability of on-going projects.

#### **4.7. Information, Publicity and Visibility**

During the reporting period, 17 press releases were published on programme-related issues. The majority of visibility activities were performed by the InfoPoint.

The main visibility events were the opening of the Kato Pyrgos/Karavostasi crossing point and the launch of the EU funded documentary on the CMP attended by Commissioner Füle in October 2010.

According to the Quantitative Survey (August 2010), the Turkish Cypriot's perception of the EU was positively affected and the Infopoint's activities contributed to it.

The activities of the EC Representation towards the Turkish Cypriots contributed to the visibility of the EC aid and to increase the trust towards the EU.

#### **4.8. Consultations with the Government of the Republic of Cyprus**

Regular meetings were held with representatives of the Government of the Republic of Cyprus, in particular when Commissioner and senior Commission officials visited the island.

As regards the verification of property ownership, the Commission relied in 2010 on the continued co-operation with the relevant services of the Government of the Republic of Cyprus, in particular with regard to enabling to proceed with the rehabilitation of the old dumpsite near Kato Dhikomo/Aşağı Dikmen partly located on land owned by Greek Cypriot private owners.

### **5. CONCLUSIONS**

During the reporting period, activities focused on:

- (1) Implementation and monitoring of projects.
- (2) Programming of the 2011 funds.

Some challenges mentioned in previous reports are still present. In the reporting period issues affecting the Aid Programme implementation included:

- (1) Cooperation between Turkish Cypriot and Greek Cypriot communities is necessary to achieve the goal of the Aid Programme, but needs time and support through different activities.

- (2) Low absorption capacity by the beneficiary community: Building up the capacity is a long-term process. However, there is continuous improvement with the progress of projects implementation.
- (3) Lack of experience with EU procurement rules delays the implementation of grants. The beneficiaries are assisted by the Programme Team and technical assistance teams to gain the experience.
- (4) Risks to the sustainability of the large infrastructure, which requires the Turkish Cypriots to make available the necessary skilled staff and funds.
- (5) Insufficient site preparation in energy and telecom projects caused delays.
- (6) Commission staff reductions due to the budgetary constraints requiring strict priority setting and reallocation of staff resources to ensure adequate monitoring and presenting risks to the ability to communicate on the achievements of the programme.